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Trade and Development Board
Investment, Enterprise and Development Commission
Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
Thirty-fifth session
Geneva, 24–26 October 2018
Item 2 of the provisional agenda
Adoption of the agenda and organization of work

Provisional agenda and annotations

I. Provisional agenda

1. Election of officers
2. Adoption of the agenda and organization of work
3. Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals
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5. Other business
6. Provisional agenda for the thirty-sixth session
7. Adoption of the report

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II. Annotations to the provisional agenda

Item 1
Election of officers

1. In accordance with established practice, it is suggested that the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting elect a Chair and a Vice-Chair-cum-Rapporteur.

Item 2
Adoption of the agenda and organization of work

2. The Intergovernmental Working Group of Experts has three working days available to it. It is therefore suggested that the first plenary meeting on Wednesday, 24 October 2018, be devoted to procedural matters (agenda items 1 and 2) and the introduction of agenda item 3. Subsequent meetings will be devoted to a detailed discussion of agenda item 3 and the introduction and detailed discussion of agenda items 4, 5 and 6. The secretariat will prepare a tentative schedule indicating the issues to be dealt with by the meeting. The tentative schedule will be available on the first day of the session.

Documentation

TD/B/C.II/ISAR/84 Provisional agenda and annotations

Item 3
Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

3. Delegates at the thirty-fourth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting highlighted the essential role that accounting and enterprise reporting play in realizing the ambitions of the 2030 Agenda for Sustainable Development. High-quality financial and sustainability information reported by companies is essential for promoting financial stability, fostering an enabling investment climate, facilitating transparency and accountability, and supporting sustainable practices in consumption and production. In light of the increasing demand for information on sustainability reporting in recent years, supported by relevant developments at the international, regional and national levels, delegates at the thirty-fourth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting noted the importance of practical tools for countries to assist them in their efforts to harness the potential of the private sector as a contribution towards the attainment of the Sustainable Development Goals.

4. The thirty-fourth session of the Intergovernmental Working Group of Experts took note of the significant progress that was made during the intersessional period on developing a set of proposed core indicators for enterprise reporting, in alignment with the monitoring framework of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators. In concluding their deliberations on this topic, delegates called on the UNCTAD secretariat to further advance work on a guidance document on the core indicators, in collaboration with leading stakeholders in the area of sustainability, integrated and
non-financial reporting. In cooperation with the Consultative Group on Enterprise Reporting and the Sustainable Development Goals, the UNCTAD secretariat has prepared the background documentation indicated below to facilitate deliberations on this agenda item.

Documentation

TD/B/C.II/ISAR/85	Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

Item 4
Issues of practical implementation of international standards of accounting and reporting in the public and private sectors

5. The thirty-fourth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting agreed to discuss issues of practical implementation of international standards of accounting and reporting in the public and private sectors. Accordingly, the UNCTAD secretariat has prepared the background documentation indicated below to facilitate deliberations on this agenda item.

Documentation

TD/B/C.II/ISAR/86	Issues of practical implementation of international standards of accounting and reporting in the public and private sectors

Item 5
Other business

6. Under this agenda item, the Intergovernmental Working Group of Experts may wish to follow up on issues addressed in earlier sessions and discuss recent applications by member States of the Accounting Development Tool.

Item 6
Provisional agenda for the thirty-sixth session

7. Discussions on the provisional agenda for the thirty-sixth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting will be proposed by taking into account the outcomes of deliberations of the thirty-fifth session of the Intergovernmental Working Group of Experts, as well as those of previous sessions.

Item 7
Adoption of the report

8. The Intergovernmental Working Group of Experts may wish to adopt agreed conclusions, as it deems necessary. Further, the Chair may wish to produce a Chair's summary. The final report will be compiled under the authority of the Chair after the conclusion of the session. It will be submitted to the next session of the Investment, Enterprise and Development Commission.

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Item 3 of the provisional agenda

Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

Note by the UNCTAD secretariat

Executive summary

This note presents the main issues raised by stakeholders since the previous session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. These issues relate to the development of the guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals and the metadata guidance on indicator 12.6.1 concerning the number of companies publishing sustainability reports. Both guidance documents are aimed at enabling member States to measure and report on the contribution of the private sector to sustainable development in alignment with Sustainable Development Goal monitoring indicators.

The note builds on deliberations relating to the core Sustainable Development Goal indicators for companies at the previous sessions of the Intergovernmental Working Group of Experts in 2016 and 2017, which addressed key conceptual and technical issues, such as principles and criteria for selection of the core indicators, and the suggested list of a limited number of core indicators. The note elaborates further on the continuing challenges in achieving comparability, consistency and usefulness in Sustainable Development Goal reporting by companies. These challenges include reporting boundaries, the balance between universality and materiality, the relationship between consolidated and legal entity reporting, external verification and assurance, corporate governance indicators and the alignment of accounting data and statistical indicators. The note also discusses the main issues relating to the metadata guidance on Sustainable Development Goal indicator 12.6.1 developed by UNCTAD and the United Nations Environment Programme as co-custodians of this indicator. Finally, the note highlights issues that require further elaboration at the thirty-fifth session of the Intergovernmental Working Group of Experts.

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I. Introduction

1. In light of the increasing role of sustainability reporting in recent years, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has underlined the need for practical tools to assist countries in their efforts to measure the contribution of the private sector to sustainable development, in particular to the achievement of the Sustainable Development Goals.

2. In concluding its deliberations at its thirty-fourth session, the Intergovernmental Working Group of Experts called on the UNCTAD secretariat to advance its work on core indicators for Sustainable Development Goal reporting by entities, as part of a guidance document to be compiled during the intersessional period, in collaboration with leading stakeholders in the area of sustainability reporting. Experts underscored the importance of the role of UNCTAD as a custodian agency, with the United Nations Environment Programme, of Sustainable Development Goal indicator 12.6.1 (number of companies publishing sustainability reports). In this capacity, both organizations are expected to develop a methodology to help countries collect data to monitor the progress towards achieving Goal 12.6 (encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle).

3. This note was prepared by the UNCTAD secretariat to facilitate discussions at the thirty-fifth session of the Intergovernmental Working Group of Experts on agenda item 3, "Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals".[1] The note highlights the main issues that were raised during the intersessional period of the Intergovernmental Working Group of Experts, in particular by the Consultative Group on Enterprise Reporting and the Sustainable Development Goals, which met in Geneva, Switzerland, on 17 and 18 May 2018[2] and by other forums. These discussions were part of the process aimed at developing a guidance document on core indicators for entity reporting[3] on the contribution towards the attainment of the Sustainable Development Goals and the metadata guidance on indicator 12.6.1. The two documents are interrelated, as the metadata guidance is intended to be supported by the guidance on core indicators as a practical means to facilitate implementation of indicator 12.6.1 on reporting

[1] The term "entity reporting" reflects the conceptual framework of International Financial Reporting Standards. For further information on the conceptual framework and the relation between entities and reporting boundaries, see www.ifrs.org/issued-standards/list-of-standards/conceptual-framework. All websites cited in this document were accessed in August 2018.

[2] The UNCTAD secretariat acknowledges with appreciation the comments and inputs provided by Consultative Group members from the following entities: Academy of Financial Management (Ukraine); ADEC Innovations; Association of Chartered Certified Accountants; Blue Orchard; Brazilian Development Bank; Cabinet Pierre Wanssy et Associés; Climate Disclosure Standards Board; CDP; Department for Business, Energy and Industrial Strategy (United Kingdom of Great Britain and Northern Ireland); Global A.I.; Global Reporting Initiative; Iberdrola; Institute of Chartered Accountants of Scotland; Institute of Singapore Chartered Accountants; International Integrated Reporting Council; International Labour Organization; International Organization for Standardization; Kyiv National Economic University; Ministry of Economy and Finance of Côte d'Ivoire; Ministry of Finance of Albania; Ministry of Finance of the Russian Federation; Ministry of Finance of Belarus; National Treasury of Morocco; Novo Nordisk; Permanent Mission of Guatemala to the United Nations in Geneva; Permanent Mission of the United Kingdom to the United Nations in Geneva and the World Trade Organization; Pernod Ricard; Principles for Responsible Investment Initiative; Professional Regulatory Board of Accountancy of the Philippines; Price Waterhouse Cooper; Royal Holloway University of London; Royal Netherlands Institute of Chartered Accountants; Sustainable Development Goals Lab; United Nations Environment Programme; United Nations Department of Economic and Social Affairs; United Nations Economic Commission for Europe; and World Business Council for Sustainable Development. Comments provided by experts in a personal capacity do not necessarily imply the endorsement of suggested indicators by their organizations.

[3] The guidance takes into consideration the request of the thirty-fourth session of the Intergovernmental Working Group of Experts to use the term "entity reporting" rather than "company reporting" to reflect differences in company definitions in different jurisdictions.

by member States; at the same time the guidance on core indicators fulfils the requirements of the metadata guidance. While many comments provided by the Intergovernmental Working Group of Experts and other stakeholders have already been incorporated into revised versions of these documents, some remain under discussion and require further consensus-building.

4. The note builds on discussions of the Intergovernmental Working Group of Experts at its earlier sessions in 2016 and 2017 and should be considered in conjunction with the documentation prepared for facilitating deliberations at these sessions.[4]

Recent key developments

5. In preparing this note, the UNCTAD secretariat took into consideration the following key developments relating to sustainability reporting and the Sustainable Development Goals:

(a) Report issued in 2017 by the Task Force on Climate-related Financial Disclosure, which was established by the Financial Stability Board at the request of Group of 20 Finance Ministers and Central Bank Governors (www.fsb-tcfd.org/publications/final-recommendations-report). This report recommends forward-looking disclosures on the financial impact of climate change, as well as the transition to a global lower-carbon economy under the terms of the United Nations Framework Convention on Climate Change. In 2018, the Task Force received endorsement from stakeholders such as Governments, regulators, preparers, investors and professional accountancy organizations;[5]

(b) Final report of the High-level Expert Group on Sustainable Finance of the European Union (January 2018). The report, informed by an industry-led consultations, proposed the establishment of a sustainability taxonomy at the European Union level, integrating environmental, social and governance factors into financial decision-making, and upgrading existing disclosure rules to better reflect sustainability risks. The final report also recommended that the European Union endorse the Task Force guidelines as a way to support high-quality reporting standards globally, including through further work on sustainable finance at the United Nations;

(c) European Commission action plan on financing sustainable growth (March 2018). The action plan, based on the recommendations of the High-level Expert Group, provides a fitness check of the Non-financial Reporting Directive of the European Union with a view to ensuring its alignment with the Task Force recommendations. The action plan states that steps will be taken to establish a sustainability taxonomy, beginning with climate change issues. Furthermore, it includes a number of actions on strengthening sustainability disclosure and accounting rule-making in this area, in particular the establishment of a European corporate-reporting laboratory to promote best practices in sustainability reporting, under the umbrella of the European Financial Reporting Advisory Group;

(d) Campaign of the International Integrated Reporting Council to promote the adoption of integrated reporting worldwide. In February 2018 the inaugural meeting of the Africa Integrated Reporting Committee took place, providing a forum to discuss the adoption of integrated reporting in the African region, with support from regional and international stakeholders. This initiative, supported by stakeholders such as the World Bank and the International Federation of Accountants, provides an example of best practice on the promotion of sustainability reporting in developing countries;[6]

[4] See TD/B/C.II/ISAR/75, TD/B/C.II/ISAR/78, TD/B/C.II/ISAR/81 and session non-paper of 1 November 2017 (Core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals).

[5] A list of organizations supporting the Task Force is available at www.fsb-tcfd.org/tcfd-supporters-AUGUST-2018/.

[6] Further information is available at www.ifac.org/global-knowledge-gateway/business-reporting/discussion/it-time-africa-accelerate-implementation.

(e) Action Platform on Reporting on the Sustainable Development Goals, based on continued cooperation between the Global Reporting Initiative and the United Nations Global Compact. The Initiative aims to provide a framework and methodology for companies to report on their Sustainable Development Goal-related performance.[7] The UNCTAD secretariat, as a member of the Action Platform's multi-stakeholder advisory committee, works closely with the Initiative and the Global Compact to ensure coordination and consistency with the UNCTAD project on core indicators, which focuses on a limited number of baseline universal indicators for companies in alignment with the Sustainable Development Goals statistical indicators at a macro level;

(f) Work by the World Business Council for Sustainable Development on sustainability reporting and disclosure, which provides a forum for entities to engage on the Sustainable Development Goals. An important development that took place during the intersessional period was the launch of the Reporting Exchange, a tool for navigating existing sustainability reporting requirements from over 60 countries, encompassing both mandatory and voluntary standards, as well as stock exchange listing requirements;[8]

(g) Work of the World Benchmarking Alliance. This new alliance of reporting stakeholders seeks to identify and promote high-quality benchmarks for assessing and comparing the performance of companies on the Sustainable Development Goals, whose consultations process concluded in June 2018. The Alliance is backed by Aviva Investors, the United Nations Foundation, the Index Initiative and the Business and Sustainable Development Commission. The consultation phase covered all continents, engaging stakeholders from both developed and developing countries.[9]

6. In addition, reports such as the KPMG Survey of Corporate Responsibility Reporting 2017,[10] as well as research conducted by the World Business Council for Sustainable Development and the Climate Disclosure Standards Board, provide data insights into the current state of sustainability reporting, in particular regarding further work needed in this area. While most of the world's biggest companies integrate financial and non-financial data into their annual reports, most do not yet acknowledge climate change as a financial risk. The KPMG report also identifies the growing resonance of the Sustainable Development Goals in entity reporting.

7. The following sections outline the main issues of the 12.6.1 metadata guidance and the guidance on the core Sustainable Development Goal indicators, that would require further elaboration at the thirty-fifth session of the Intergovernmental Working Group of Experts.

II. Metadata guidance on Sustainable Development Goal indicator 12.6.1

8. As part of Sustainable Development Goal 12 to ensure sustainable consumption and production patterns, target 12.6 highlights the need for the adoption by companies of sustainable practices, including the integration of sustainability information into their reporting cycle. The suggested indicator for the measurement of progress towards this target, within the monitoring mechanism of the Sustainable Development Goals, is indicator 12.6.1: number of companies publishing sustainability reports.

9. The development of disciplines for the indicators takes place under the umbrella of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators, which

[7] A recent output of the Action Platform is the report *In Focus: Addressing Investor Needs in Business Reporting on the Sustainable Development Goals*, available at www.unglobalcompact.org/library/5625.

[8] Additional information on the Reporting Exchange can be found at www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/The-Reporting-Exchange.

[9] Summary documents for the World Benchmarking Alliance round tables can be accessed at www.worldbenchmarkingalliance.org/consultation.

[10] Survey available at https://home.kpmg.com/xx/en/home/campaigns/2017/10/survey-of-corporate-responsibility-reporting-2017.html.

currently classifies indicator 12.6.1 as a tier three indicator, requiring the development of authoritative metadata guidance.[11] In this context, the Inter-Agency and Expert Group designated UNCTAD and the United Nations Environment Programme co-custodians of indicator 12.6.1, to develop metadata guidance on this indicator. Since 2016, the two agencies have jointly conducted research and built consensus to enable a reclassification of indicator 12.6.1 to a higher tier and facilitate its practical application by member States.

10. The draft metadata guidance was discussed at the thirty-fourth session of the Intergovernmental Working Group of Experts (see TD/B/C.II/ISAR/81) and by the Consultative Group on Enterprise Reporting and the Sustainable Development Goals. Subsequently, a dedicated task force was created by the two agencies with a view to gathering inputs from a wide range of stakeholders elaborating further on Consultative Group discussions, which held its first webinar on 31 July 2018.[12] Through further discussions, some issues were raised that should be addressed to complete the metadata guidance and launch pilot testing. These include the issues described below.

A. Sustainability reporting: Definition and minimum requirements

11. With regard to the definition of sustainability reporting, the following issues were raised:

(a) Should the term "sustainability information" replace reference to stand-alone sustainability reports?

(b) Should minimum requirements be established for sustainability information or sustainability reports?

(c) How detailed these requirements should be?

12. Several experts stressed that while relevant in its current language, indicator 12.6.1 should not focus solely on the quantitative number of stand-alone sustainability reports. Rather, the indicator should take into account target 12.6 on the integration of sustainability information into reporting cycles, in line with the outcome document of the United Nations Conference on Sustainable Development, resolution 66/288 of the General Assembly (2012), paragraph 47. In this regard, some experts wondered whether the wording of the indicator could be modified to "number of companies publishing sustainability information", rather than "number of companies publishing sustainability reports". Subsequently, it was suggested that the wording of the indicator could be revisited to better reflect the objectives of target 12.6 on encouraging companies to integrate sustainability information into their reporting cycle.

13 Other discussion focused on the definition of sustainability reporting. The definition should be flexible enough to accommodate different types of reports currently issued by companies under the heading "sustainability reporting". Further, the definition should cover the type of information included in reports, rather than specific reporting formats, while highlighting the importance of consistency, comparability and coherence of data provided by companies on financial and non-financial issues.

14. As the quality of sustainability reports varies greatly, the importance of minimum requirements for the content of reports was emphasized to ensure that indicator 12.6.1

[11] See https://unstats.un.org/sdgs/iaeg-sdgs/tier-classification. The tier three category applies to indicators for which no international established methodology or standards are yet available; related work is therefore in progress.

[12] Members of the task force represent key players in the area of sustainability reporting, such as the International Integrated Reporting Council, World Business Council for Sustainable Development, Aviva/World Benchmarking Alliance, Global A.I., British Standards Institution/International Organization for Standardization, Novo Nordisk, Corporate Register, Royal Netherlands Institute of Chartered Accountants, Bocconi University Department of Accounting, Brazilian Institute of Geography and Statistics, Department of Environmental Affairs of South Africa, Ministry of Industry and Tourism of Colombia, Global Reporting Initiative, ADEC Innovations, The Green House Consultancy, Philippine Statistics Authority and National Cleaner Production Centre of Colombia.

provides meaningful information. The purpose of the metadata guidance was not to create a new reporting standard, but rather to ensure that the indicator was aligned with existing frameworks, encompassing disclosures in the economic, environmental, social and institutional areas as a key criterion to qualify the report as an input towards the indicator.

15. In this context, potential synergies between indicator 12.6.1 and the proposed core Sustainable Development Goal indicators were explored. However, UNCTAD core indicators are not intended to be the minimum requirements for a report to be considered as fulfilling the criteria for indicator 12.6.1. Rather, the core indicators provide a tool for Governments to facilitate the harmonization and comparability of the Sustainable Development Goal baseline data at a company level and to enhance their ability to report on the private sector contribution to the implementation of the Goals. It also could be used by companies to produce minimum data on their Sustainable Development Goal-related performance in alignment with Sustainable Development Goal monitoring requirements at the national level.

16. With regard to minimum sustainability reporting requirements, the following issues were raised:

(a) Should the methodology include other reporting levels, going beyond the minimum requirement, or merely encourage companies to go beyond the minimum?

(b) If so, is it feasible to introduce a measure of sustainability practices through an analysis of whether the company merely produces sustainability information, or actually demonstrates progress towards sustainability targets linked to its key materiality issues?

(c) How can this information be verified?

17. Additional levels of reporting beyond the minimum requirements of indicator 12.6.1 were also considered. The objective of this multi-level approach would be to encourage entities, especially multinational enterprises and listed entities, to engage with high-quality disclosures that are relevant to their operational context and reporting capacity. Such additional levels of reporting would require further disclosures across the economic, environmental, social and institutional areas, as well as the integration of such factors into an entity's operations, including in target-setting and strategic planning. They would also require building adequate institutional settings for quality control and data analysis.

18. An important issue for further consideration is related to whether the audit and/or assurance should be required by the metadata guidance on the accounting data used for entity reporting towards indicator 12.6.1. While assurance would be a way to ensure the quality of sustainability reports, and therefore the meaningfulness of the indicator, cost implications and issues of technical and institutional capacity would require careful thought. Guidance on the core indicators contains further details on this matter.

B. Applicability for small and medium-sized enterprises

19. Under this topic, the following issues were raised:

(a) Should there be a differentiated requirement for small and medium-sized enterprises (SMEs)?

(b) If so, how flexible should the minimum requirement for SMEs be?

(c) Would it be feasible to have a minimum requirement, and other levels of reporting for SMEs?

20. In many countries, SMEs represent a large proportion of economic activity. Therefore, it is critical to enable member States to collect Sustainable Development Goal-related data from the SME sector. In this regard, experts suggested that SMEs could be encouraged to provide data on the four key areas of sustainability reporting, particularly in the environmental and social areas, but with consideration of fewer disclosure elements. However, to do this, it would be necessary to address specific challenges.

21. From the perspective of aggregating data on indicator 12.6.1, the establishment of differentiated sustainability reporting requirements for SMEs would make it necessary to define a consistent threshold for company size. While many jurisdictions consider definitions related to the number of employees, there is no international consensus on the definition of SMEs. One possibility would be to define them as entities with fewer than 250 employees, a figure that is employed by the Action Platform on Reporting on the Sustainable Development Goals of the United Nations Global Compact and Global Reporting Initiative. The definition of company size used in the metadata guidance could differ from the definitions of company size used by Governments when carrying out their own analysis; therefore, the issue of inconsistency of the definitions and resulted data should be addressed.

22. Furthermore, SME capacity-building needs with regard to Sustainable Development Goal reporting and resource constraints should be taken into account.

C. Disaggregation and data collection issues

23. With regard to disaggregation and data collection, the following issues were raised:

(a) Should the data be disaggregated by company size, and if so, what definitions of company size should be used?

(b) How should a company be defined for the purposes of reporting under indicator 12.6.1?

(c) Should "company" be replaced by "entity"?

(d) What should be the rule for including a company under a specific country?

(e) Should the data be collected nationally, or should the custodian agencies further explore the possibility of establishing a global database for collation and analysis of reports and data generation?

(f) What kind of further disaggregation would be useful?

(g) If data per sector is an option, which classification should be used?

24. One of the key challenges in sustainability and Sustainable Development Goal reporting is that of reporting boundaries, related legal entity reporting issues compared with consolidated reporting, and data disaggregation. Establishing a methodology can be complex in case of entities with complex structures across different national jurisdictions. For example, under which jurisdiction should the Sustainable Development Goal report be counted towards indicator 12.6.1 if an entity is located in more than one jurisdiction? How to avoid duplicate counting if it is a part of a group report? Experts noted that further research and pilot testing was needed to establish a sound framework for determining the reporting boundary and the disaggregation methodology for indicator 12.6.1 that would be consistent with both the accounting frameworks and statistical requirements on data disaggregation. In particular, it was a challenge to maintain consistency with the methodology of International Financial Reporting Standard 10 on consolidated financial statements.

25. Consolidated reports often provide sustainability information at the global level. However, since most impacts are local, this task is generally performed by a legal entity in the jurisdiction where it is registered and pays taxes. In addition, the Sustainable Development Goals are meant to be monitored at the national level, which suggests that legal entity reporting should be a key basis for such data collection. In this regard, relevant data are available in cost and management accounting records of entities. In many jurisdictions, they are required to prepare legal entity reports for companies' supervisory authorities, even when they represent affiliate or subsidiaries of multinational enterprises. They are also required to provide statistical data on environmental and social issues to national environment or labour offices. Data on the use of natural resources, such as water and energy, are available in entities' cost and management accounting systems. All these sources of information could be used by legal entities towards reporting on indicator 12.6.1.

26. Issues such as whether sustainability reports should be prepared in the jurisdiction where entities are registered or where most of their operations take place were discussed. Experts also proposed a modular approach, whereby entities would record data at the lowest organizational unit possible and then aggregate, on a modular basis to the level required for reporting purposes, country-by-country reporting on sustainability information. They expressed concern that such kinds of reporting should not represent a burden for reporting entities and that consideration should be given to existing legal frameworks for sustainability reporting at the national level.

27. It is essential to build or strengthen adequate mechanisms on collecting and dissemination data on sustainability reporting to enable member States to fulfil reporting requirements relating to indicator 12.6.1. While some databases already exist, they often relate to different reporting frameworks with limited data comparability and reliability. Examples of such reporting frameworks are the Global Reporting Initiative database, the Global Compact database on communications on progress, CDP and the Corporate Register. Efforts to establish efficient national institutional mechanisms on data collection, including quality control of data inputs, will play an important role in achieving the objectives of sustainability reporting by entities and facilitate the usefulness of reported data for key stakeholders, including government agencies responsible for monitoring of the implementation of the Goals at the national level.

28. Nonetheless, setting up high-quality databases that have adequate quality control systems would require significant resources, which can be a burden for Governments and national statistical offices, especially in developing countries.

29. Experts discussed another option with a view to enabling data collection of entity reporting at the global level to be then further shared with member States as relevant. In addition, the establishment of a global database would require further consensus-building on the relevant methodology. It would also be necessary to develop institutional capacity to analyze a large number of reports to ensure quality and comparability requirements for reported data.

III. Guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

30. During the intersessional period, further research and consultations were undertaken by the UNCTAD secretariat to advance its work on developing the guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals. Core indicators were selected through a series of consultations and discussions of the Intergovernmental Working Group of Experts between 2016 and 2018, based on key reporting principles, selection criteria, main reporting frameworks and companies' reporting practices.

31. The objective of the guidance on core indicators is to provide practical information on how these indicators could be measured in a consistent manner and in alignment with countries' needs with regard to monitoring the achievement of the Sustainable Development Goals. The guidance is intended to serve as a tool to assist Governments in assessing the private sector contribution to the implementation of the Goals and to enable them to report on Sustainable Development Goal indicator 12.6.1. The guidance is also designed to help entities provide baseline data on sustainability issues in a consistent and comparable manner that would meet the common needs of many different stakeholders of the Sustainable Development Goal agenda. It also envisaged that the guidance will facilitate capacity-building in the area of the Sustainable Development Goal reporting in member States at the country and company levels as part of the ongoing UNCTAD project in this area.

32. As mentioned previously, UNCTAD work on the guidance on core indicators is closely coordinated with other sustainability reporting initiatives, including the Action Platform on Reporting on the Sustainable Development Goals. The UNCTAD secretariat

has taken further steps towards strengthening partnerships with other key stakeholders, including through the organization of a round-table discussion on measuring the private sector's contribution to the attainment of the Goals. This event took place on 23 April 2018 at United Nations Headquarters in New York, United States of America, and was jointly organized with the International Integrated Reporting Council, the World Business Council for Sustainable Development and the Royal Netherlands Professional Association of Accountants. In particular, the attendance of financial services stakeholders at the event indicated their endorsement of the core indicators as a valuable tool to help translate the information needs of sustainable finance into actionable reporting frameworks that can inform private sector practices and Government policymaking.

33. The core indicators provide a baseline benchmark and are not intended to cover all areas of the Sustainable Development Goals. The indicators are meant to be universal, focusing primarily on a rational use of resources at a reporting-entity level. In this regard, they also present a business case for entities as means to monitor the costs and improve productivity. The core indicators are intended to be applicable for both consolidated and legal entity reporting; they are selected in alignment with the Sustainable Development Goal indicators at the national level and are based on what companies are already reporting with regard to the achievement of the Sustainable Development Goals.

34. The core indicators (see annex) contained in the current version of the guidance are follows:[13]

(a) Economic area: revenue, value added, net value added, taxes and other payments to the Government, green investment, community investment, total expenditure on research and development, and percentage of local procurement;

(b) Environmental area: water recycling and reuse; water use efficiency; water stress; reduction of waste generation; waste reused, re-manufactured and recycled; hazardous waste; greenhouse gas emissions (scopes 1 and 2); ozone-depleting substances and chemicals; renewable energy; and energy efficiency;

(c) Social area: proportion of women in managerial positions, average hours of training, expenditure on employee training, employee wages and benefits, expenditure on employee health and safety, frequency and incidence rates of occupational injuries and percentage of employees covered by collective agreements;

(d) Institutional area: corporate governance disclosures (including information on the number of board meetings and attendance rate, number and percentage of women board members, board members by age range, number of meetings of audit committee meetings and attendance rate, and total compensation of board members and executives), as well as anti-corruption practices (including the amount of fines paid or payable due to settlements, and average number of training hours on anti-corruption issues).

35. The following sections provide an overview of the main issues raised during the intersessional period with regard to the guidance on core indicators.

A. Balancing universality and materiality

36. The guidance on core indicators reflects the emerging consensus surrounding the materiality of sustainability information in the context of climate-related risks and, more broadly, the Sustainable Development Goals.[14]

37. The Task Force on Climate-related Financial Disclosure provides a framework on how entities can conduct materiality assessments for the disclosure of sustainability

[13] For additional information on these indicators, their measurement and relevance to the Sustainable Development Goal macro indicators, see session non-paper of 15 August 2018 entitled "Guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals".

[14] For additional information on how the UNCTAD secretariat has considered materiality as part of the conceptual framework of the core indicators, see TD/B/C.II/ISAR/81.

information. In particular, the Task Force report states that it "recognizes that most information included in financial filings is subject to materiality assessment. However, because climate related risk is a non-diversifiable risk that affects nearly all industries, many investors believe it requires special attention". Certain organizations with an annual revenue of more than $1 billion should consider disclosing such information in other reports (that is to say, not in the annual financial filings) when the information is not deemed material and not included in financial filings, as recommended by the Task Force in their final report (June 2017). The report also states that "organizations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable", allowing for trend analysis.

38. The Task Force cautions organizations against making the premature conclusion that climate-related risks and opportunities are not material based on perceptions of the longer-term nature of some climate-related risks.

39. The notion that some baseline aspects of sustainability information have an intrinsic impact on material risks is also echoed by the European Commission action plan on financing sustainable growth. Among other proposals, the European Commission has announced the establishment of a taxonomy for sustainable investment and production, with explicit requirements for activities to be considered sustainable. The taxonomy is forthcoming and will be taken into consideration in further updates of the guidance on core indicators.

40. Further, the core indicators for entities draw on relevant Sustainable Development Goal macro indicators, which emerged through a process of intergovernmental and inclusive stakeholder consensus-building. As a result, the core indicators present direct material relevance to Governments, investors, civil society and other stakeholders. The private sector is increasingly called upon to prepare management reports with future-oriented scenario analyses, driven by the transition towards carbon-neutral economies.

41. Narrative or qualitative information that is specific to an entity's operational context remains useful in contextualizing the quantitative figures reported through core indicators. Such narrative information allows entities to apply a lens of materiality that also enables them to engage with additional disclosures, drawing on sustainability reporting guidelines, industry standards, national regulations or other available mechanisms.

B. Relationship between consolidated and legal entity reporting

42. As discussed above, the guidance on core indicators is intended for both consolidated and legal entity reporting. However, further research is needed to determine how to reconcile value chain reporting and financial reporting boundaries. Furthermore, the guidance states that when information attributable to entities, facilities or activities outside an organization's mainstream reporting boundary is also reported, it should be clearly distinguished from information about entities and activities within financial boundaries.[15]

43. With regard to legal entity reporting, the Organization for Economic Cooperation and Development recommended that certain multinational enterprises report on every entity and every branch, in every country of operation (see www.oecd.org/tax/automatic-exchange/about-automatic-exchange/country-by-country-reporting.htm). Such enterprises are encouraged to file a country-by-country report to provide the following information for each jurisdiction in which they do business: annual revenue, profit before income tax and income tax paid and accrued. Multinational enterprises are also expected to report the number of employees, stated capital, accumulated earnings and tangible assets in each jurisdiction.

[15] See CDP Worldwide, 2018, *Climate Disclosure Standards Board Framework for Reporting Environmental Information, Natural Capital and Associated Business Impacts: Advancing and Aligning Disclosure of Environmental Information in Mainstream Reports*. See chapter 3, REQ-07 (Organizational boundary), p. 27.

44. Even when country-specific information is not disclosed publicly, the majority of companies operating in different jurisdictions already collect and use such information through internal management reports.

C. External verification and assurance

45. The guidance on core indicators states that independent assurance is encouraged as a means to increase the quality of information reported through the core indicators, hence their usefulness for investors and regulators. However, in contrast to the practice of financial accounting, sustainability reporting assurance by a third party is still voluntary in most countries. Even companies that may have significant experience with the disclosure of sustainability information typically provide assurance for a limited segment of the data, such as greenhouse gas emissions.

46. In this regard, the guidance refers to two commonly used international standards: International Standard on Assurance Engagements 3000 and Account Ability AA1000 Assurance Standard. Both are considered to be consistent with different frameworks used by companies, such as the Global Reporting Initiative or the International Integrated Reporting Council.[16] Companies can choose between reasonable and limited assurance. In a reasonable assurance engagement, the practitioner gathers sufficient appropriate evidence to conclude that the subject matter conforms in all material respects with suitable criteria and gives a report in the form of a positive assurance, such as "the financial statements have been prepared in accordance with applicable legislation and/or accounting standards". In a limited assurance engagement, the practitioner gathers sufficient appropriate evidence to conclude that the subject matter is plausible in the circumstances and gives a report in the form of a negative assurance, such as "nothing has come to our attention that causes us to believe that the financial statements are not prepared in accordance with applicable legislation and/or accounting standards". For a limited assurance engagement, the practitioner typically collects less evidence than for a reasonable assurance engagement, performs different or fewer tests than those required for reasonable assurance and uses smaller sample sizes for the tests performed.[17]

47. There exists the possibility of having hybrid or mixed assurance levels, meaning that levels of assurance could vary on a disclosure-by-disclosure basis (reasonable on some disclosures and limited on others). This could be especially relevant for types of information where there are technical challenges in providing audit and assurance services, such as in the area of human rights.

D. Indicators on corporate governance

48. As indicated earlier, the core indicators are intended to be relevant to all entities, across sectors and geographies. This has led to discussion on the relevance of corporate governance disclosures, reported under the institutional area, which may not be necessarily applicable for certain entities, such as SMEs or non-listed entities.

49. However, there was overall agreement of the Consultative Group on maintaining indicators on corporate governance, given the important role that good governance plays within the framework of the Sustainable Development Goals, as well as existing regulatory requirements in different jurisdictions. This is, however, based on the understanding that some of the indicators in this category will not be relevant to all companies, for example such as SMEs.

50. In order to align proposed corporate governance indicators more closely with broader sustainability issues, the revised version of the guidance on core indicators includes a reference to the number of times the Goals are discussed as part of the agenda of a

[16] See http://integratedreporting.org/wp-content/uploads/2014/07/Assurance-on-IR-an-exploration-of-issues.pdf.

[17] See www.icaew.com/en/technical/audit-and-assurance/assurance/process/scoping/assurance-decision/limited-assurance-vs-reasonable-assurance.

company's board of directors. The revised guidance also reflects the fact that existing legislation on personal data may limit companies' ability to gather data on the diversity of governance mechanisms of members (for example, age discrimination legislation).

E. Alignment of accounting data and statistical indicators

51. An important element of the guidance on core indicators is the alignment of the suggested core indicators with the Sustainable Development Goal macro indicators and related metadata methodologies. Building on close cooperation with the Department of Economic and Social Affairs, the measurement methods outlined in the guidance make references, when possible, to international statistical standards, including the System of National Accounts and the System of Environmental–Economic Accounting.

52. An example of such synergies is represented by the long-existing measurement methodology of the computation of gross domestic product, which is based on revenue data provided in annual legal entity reports. Similarly, in the revised version of the guidance, terms such as water recycling or use were clarified in the context of the System of Environmental–Economic Accounting.

53. Indicators on value added are frequently used within the monitoring mechanism of the Goals to inform the calculation of other indicators, such as the denominator of several Sustainable Development Goal indicators. However, the use of indicators related to value added, including how they may distort the valuation of entities where intellectual property plays an important role, continues to pose technical challenges. This issue arises from the accounting treatment of intangible assets and requires further discussion.

IV. Conclusion and the way forward

54. This note provides an overview of the main issues discussed during the intersessional period of the Intergovernmental Working Group of Experts during the development of guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals, and on the metadata guidance on indicator 12.6.1. The note highlights issues that would require further discussion so that they may be taken into account in the updated versions of these documents.

55. It is expected that the inputs prepared by the UNCTAD secretariat, in cooperation with other partners and experts convened as part of the Consultative Group, will enhance the comparability and quality of sustainability reporting, while also addressing emerging data monitoring needs in relation to the contribution of the private sector to the implementation of the Goals at the national level.

56 In addition to the issues presented in this note, delegates at the thirty-fifth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting may wish to consider the following questions:

(a) Would the proposed indicators enable enterprises to provide comparable data on their performance towards the achievement of the Sustainable Development Goals, in alignment with the Sustainable Development Goal monitoring framework?

(b) Would the suggested Sustainable Development Goal indicators for entities be useful in enabling countries to collect data on the private sector contribution to the implementation of the Goals and to report on indicator 12.6.1?

(c) Is further research and consensus-building work required towards better alignment of indicator 12.6.1 and the target 12.6 of the Sustainable Development Goals?

(d) What are the most pressing needs with regard to capacity-building for sustainability reporting that would enable countries to collect useful and comparable data on companies' contribution towards the implementation of the Goals at the national level?

(e) What measures should policymakers take to promote the alignment of national accounts and statistics methodologies with Sustainable Development Goal reporting by entities?

(f) How can global forums such as the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting further contribute to enhancing the role of entity reporting to achieve the Sustainable Development Goals?

Annex

Selected core Sustainable Development Goal indicators

	Areas	*Indicators*	*Measurement*[a]	*Relevant Sustainable Development Goal indicator*
A	**Economic area**			
A.1	Revenue and/or (net) value added	A.1.1 revenue	International Financial Reporting Standard 15	8.2.1
		A.1.2 value added	Revenue minus costs of bought-in materials, goods and services	8.2.1, 9.b, 9.4.1
		A.1.3 net value added	Revenue minus costs of bought-in materials, goods and services and minus depreciation of tangible assets	8.2.1, 9.b
A.2	Payments to government	A.2.1 taxes and other payments to government	Total taxes paid and payable (encompassing not only income taxes, but also other levies and taxes, such as property taxes or value added taxes) plus related penalties paid, plus all royalties, licence fees and other payments to government for a given period	17.1.2
A.3	New investment/expenditures	A.3.1 green investment	Total amount of expenditures for investments whose primary purpose is the prevention, reduction and elimination of pollution and other forms of degradation to the environment in absolute amounts and relative terms	7.b.1
		A.3.2 community investment	Total charitable or voluntary donations and investments of funds (both capital expenditure and operating ones) in the broader community where target beneficiaries are external to the enterprise incurred in the reporting period in absolute amounts and relative terms	17.17.1
		A.3.3 total expenditures on research and development	Total amount of expenditures on research and development by reporting entity during reporting period in absolute amounts and relative terms	9.5.1
A.4	Total local supplier/purchasing programmes	A.4.1 percentage of local procurement	Proportion of procurement spending of reporting entity at local suppliers (based on invoices or commitments made during reporting period) in absolute amounts and relative terms	9.3.1
B	**Environmental area**			
B.1	Sustainable use of water	B.1.1 water recycling and reuse	Total volume of water recycled and/or reused by reporting entity during reporting period in absolute amounts and relative terms	6.3.1
		B.1.2 water use efficiency	Water use per net value added in the reporting period as well as change of water use per net value added between two reporting periods (where water use is defined as water withdrawal plus total water received from third party) in relative terms, terms of change and absolute amounts	6.4.1
		B.1.3 water stress	Water withdrawn with a breakdown by sources (surface, ground, rainwater, waste water) and with reference to water-stressed or water-scarce areas (expressed as a percentage of total withdrawals) in absolute amounts and relative terms	6.4.2
B.2	Waste management	B.2.1 reduction of waste generation	Change in entity's waste generation per net value added in relative terms, terms of change and absolute amounts	12.5

	Areas	*Indicators*	*Measurement*[a]	*Relevant Sustainable Development Goal indicator*
		B 2 2 re-use, re-manufacturing and recycling of waste	Total amount of waste reused, re-manufactured and recycled in relative terms, terms of change and absolute amounts	12 5 1
		B 2 3 hazardous waste	Total amount of hazardous waste, in absolute terms, as well as proportion of hazardous waste treated, given total waste reported by reporting entity in relative terms, terms of change and absolute amounts	12 4 2
B 3	Greenhouse gas emissions	B 3 1 greenhouse gas emissions (scope 1)	Scope 1 contribution in relative terms, terms of change and absolute amounts	9 4 1
		B 3 2 greenhouse gas emissions (scope 2)	Scope 2 contribution in relative terms, terms of change and absolute amounts	9 4 1
B 4	Ozone-depleting substances and chemicals	B 4 1 ozone-depleting substances and chemicals	Total amount of ozone-depleting substances (bulk chemicals/substances existing either as pure substance or as mixture) per net value added	12 4 2
B 5	Energy consumption	B 5 1 renewable energy	Renewable energy consumption as percentage of total energy consumption during reporting period	7 2 1
		B 5 2 energy efficiency	Energy consumption per net value added	7 3 1
C	**Social area**			
C 1	Gender equality	C 1 1 proportion of women in managerial positions	Number of women in managerial positions to total number of employees (in terms of headcount or full-time equivalent)	5 5 2
C 2	Human capital	C 2 1 average hours of training per year per employee	Average number of hours of training per employee per year (as total hours of training per year divided by total employees) possibly broken down by employee category	4 3 1
		C 2 2 expenditure on employee training per year per employee	Direct and indirect costs of training, including costs such as trainers' fees, training facilities, training equipment and related travel costs, per employee per year possibly broken down by employee category	4 3 1
		C 2 3 employee wages and benefits with breakdown by employment type and gender	Total costs of employee workforce (wages and benefits)	8 5 1, 10 4 1
C 3	Employee health and safety	C 3 1 expenditures on employee health and safety	Total expenses for occupational safety and health-related insurance programmes, for health-care activities financed directly by entity, and all expenses sustained for working environment issues related to occupational safety and health incurred during reporting period	3 8
		C 3 2 frequency rates/incident rates of occupational injuries	Frequency rates: number of new injury cases divided by total number of hours worked by workers during reporting period; incident rates: total number of lost days expressed in terms of number of hours divided by total number of hours worked by workers during reporting period	8 8 1
C 4	Collective agreements	C 4 1 percentage of employees covered by collective agreements	Number of employees covered by collective agreements to total employees (in terms of headcount or full-time equivalent)	8 8 2
D	**Institutional area**			
D 1	Corporate governance disclosures	D 1 1 number of board meetings and attendance rate	Number of board meetings during reporting period and number of board members participating in each board meeting during reporting period divided by total number of directors sitting on board multiplied by number of board	16 6

	Areas	*Indicators*	*Measurement*[a]	*Relevant Sustainable Development Goal indicator*
			meetings during reporting period	
		D.1.2: number of women board members	Proportion of female board members to total board members	5.5.2
		D.1.3: board members by age range	Number of board members by age range (e.g. under 30 years of age, between 30 and 50, over 50)	16.7.1
		D.1.4: number of meetings of audit committee and attendance rate	Number of board meetings during reporting period and number of audit committee members participating in each Audit committee meeting during reporting period, divided by total number of members sitting on audit committee, multiplied by number of audit committee meetings during reporting period	16.6
		D.1.5: compensation: total compensation and compensation per board member and executive	Total annual compensation (including base salary and variable compensation) for each executive and non-executive director	16.6
D.2	Anti-corruption practices	D.2.1: amount of fines paid or payable due to convictions	Total monetary value of paid and payable corruption-related fines imposed by regulators and courts during reporting period	16.5.2
		D.2.2: average number of hours of training on anti-corruption issues, per year per employee	Total number of hours of training in anti-corruption issues per year, divided by total number of employees	16.5.2

[a] Due to space constraints, this note provides a summary of the core Sustainable Development Goal indicators. A more detailed methodology is presented in the session non-paper of 15 August 2018 entitled "Guidance on core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals".

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Issues of practical implementation of international standards of accounting and reporting in the public and private sectors

Note by the UNCTAD secretariat

Executive summary

This note presents a review of practical implementation considerations with regard to the International Financial Reporting Standards and the International Public Sector Accounting Standards. It highlights practical implications of the International Financial Reporting Standards issued in recent years on topics such as financial instruments and revenue and for sectors such as leasing and insurance. In addition, it presents an overview of the current state of implementation of the International Public Sector Accounting Standards and practical implementation considerations related to regulatory, institutional and technical aspects.

Introduction

1. Member States of the United Nations noted at least four decades past the importance of a vibrant private sector in building productive capacities and increasing the volume of trade and ultimately facilitating the attainment of economic and social development objectives. Enterprises need investment from domestic and international sources to grow their productive capacities and remain competitive in an increasingly integrating global market. Entities that provide reliable and comparable financial statements stand a greater chance of attracting investment. For over four decades, the United Nations has been contributing to the promotion of reliable and comparable financial and non-financial reporting by enterprises worldwide. To this end, the Economic and Social Council established the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting in October 1982.

2. The last two decades have been characterized by a proliferation of international standards in the areas of accounting and financial reporting in both the private and public sectors, auditing and assurance, as well as in the education and professional qualification of accountants. Through the Intergovernmental Working Group of Experts, UNCTAD has

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contributed to a better understanding and more holistic and efficient implementation of such standards by member States.

3. With regard to the International Financial Reporting Standards, the Intergovernmental Working Group of Experts dedicated a series of annual sessions to deliberations focused on issues that arise in their practical implementation. The UNCTAD secretariat prepared background documentation and country case studies to facilitate better understanding and deliberations on such issues.[1] Furthermore, in recent years, the Intergovernmental Working Group of Experts has reviewed practical aspects of compliance monitoring and enforcement mechanisms with regard to corporate reporting requirements and issued guidance material.[2]

4. Over the years, delegates at annual sessions of the Intergovernmental Working Group of Experts have made successive requests for discussions on the practical implementation aspects of the International Public Sector Accounting Standards. The secretariat has accordingly organized a series of technical workshops on this topic.

5. This note aims to facilitate discussions at the thirty-fifth session of the Intergovernmental Working Group of Experts on issues of practical implementation of international standards of accounting and reporting in the public and private sectors. The first chapter addresses practical implementation aspects of the International Financial Reporting Standards, providing an overview of the International Accounting Standards Board and the current state of practical implementation worldwide. This is followed by a review of practical implementation considerations with regard to recently issued standards that will come into force in the current and subsequent financial reporting periods. The second chapter provides a brief background of the International Public Sector Accounting Standards and discusses practical implementation issues with regard to regulatory, institutional and technical aspects. The third chapter presents conclusions and questions that delegates may wish to consider.

I. Practical implementation of the International Financial Reporting Standards

A. Background

6. The accountancy profession has played a leading role with regard to the globalization of accounting standards. One of the early indications of a globalizing accountancy profession was the organization of the first World Congress of Accountants in 1904. The quadrennial Congress has continued to be held; the next Congress is scheduled to take place in November 2018. In 1973, 16 professional accountancy organizations established the International Accounting Standards Committee, which issued a number of International Accounting Standards until February 2001, and its Standing Interpretations Committee published interpretations of these standards. In 2001, the International Accounting Standards Committee was replaced by the International Accounting Standards Board, which adopted the standards that had been issued, along with the published interpretations; the Board called the full suite of standards and interpretations the International Financial Reporting Standards.

7. The current suite consists of 25 International Accounting Standards, 17 International Financial Reporting Standards and 18 Interpretations. Of 166 jurisdictions surveyed by the Board, 144 require the International Financial Reporting Standards to be applied by all or most domestic publicly accountable entities in their capital markets.[3] Among the

[1] UNCTAD, 2008, *Practical Implementation of International Financial Reporting Standards: Lessons Learned* (United Nations publication, Sales No. E.08.II.D.25, New York and Geneva).

[2] UNCTAD, 2017, *Monitoring of Compliance and Enforcement for High-Quality Corporate Reporting: Guidance on Good Practices* (United Nations publication, New York and Geneva).

[3] See www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis
Note: All websites referred to in footnotes were accessed in August 2018.

49,000 companies listed on the 88 largest global securities exchanges, 27,000 use the International Financial Reporting Standards. The combined gross domestic product of countries applying the standards amounts to $46 trillion.[4]

B. Current and forthcoming practical implementation issues

8. The suite of International Financial Reporting Standards currently implemented represents an important change for virtually every company. It includes the widest reform ever to have taken place in accounting for insurance contracts, as well as major refinements in accounting for financial instruments and leases and the recognition and measurement of revenue. The significance of the current implementation programme is such that, in 2016, the International Organization of Securities Commissions issued the *Statement on the Implementation of New Accounting Standards*.[5] The statement emphasizes that early assessment of the impact of a new standard on a company's financial statements is desirable and that the disclosure of expected impacts is mandated under International Accounting Standard 8 on accounting policies, changes in estimates and errors. The International Organization of Securities Commissions suggests that listed companies should provide qualitative disclosures as early as possible, followed up quantitative disclosures once the issuer has advanced further in implementation assessment.

Standard 9: Financial instruments

9. Standard 9 replaces International Accounting Standard 39, which introduced fair value measurement requirements for many financial instruments. Standard 9 serves as the response by the International Accounting Standards Board to the financial crisis and to the need to replace Standard 39 with a more operationally workable standard. However, matters have been complicated by the fact that the standard has been issued in phases, with the classification and measurement part issued in 2009 and the standard completed in 2015 but without addressing macrohedging issues, for which Standard 39 remains in force. The phased publication was partly due to a decision that, as different aspects were completed, it would be better to make improved reporting available to constituents.

10. Early on during the financial crisis, a number of banks stated that using fair value as the measurement basis for financial instruments in a falling market had a catastrophic multiplier effect. Subsequent analysis has shown, however, that fair value accounting played little role in the crisis, yet a significant problem was that Standard 39 did not allow credit losses to be recognized until they had been incurred.[6] The effect of this was that banks were not signalling in advance that there was a deterioration in the quality of their loan portfolios. Their profit and loss accounts thus incurred large write-offs when losses occurred.

Expected credit loss allowance

11. The most radical change has arguably taken place in this area. Standard 9 introduces a three-stage approach to evaluating loans. In stage 1, the preparer measures the credit loss on the cohort of loans expected to occur in the next 12 months. A loan moves to stage 2 when a significant increase in credit risk is determined to have taken place for the entire cohort. An indicator of this is the presence of loans that are more than 30 days past due. This leads to recognition of an expected lifetime loss, discounted for the time value of money. Stage 3 is reached when an individual loan is deemed to be credit impaired. There are more detailed rules concerning specific types of instruments, such as those bought as credit impaired.

[4] P Pacter, 2017, *Pocket Guide to International Financial Reporting Standards: The Global Financial Reporting Language* (International Financial Reporting Standards Foundation, London).

[5] See www.iasplus.com/en/news/2016/12/iosco.

[6] See, for example, ME Barth and WR Landsman, 2010, How did financial reporting contribute to the financial crisis? *European Accounting Review*, 19(3):399–423.

12. The approach involves considering expected losses, which is likely to be the most difficult area in implementation. Questions raised during drafting of the standard included "what information does the bank use?" and "how far ahead does it look?" The standard requires banks to use reasonable and supportable information. This may be information specific to the borrower, such as diminishing financial performance, or may include macroeconomic factors. A bank can use internal data, such as statistical trends, or external data. Historical data can be used if it has been corrected for any changes in circumstances.

13. This is an area that is challenging for banks, for their auditors and for regulatory and enforcement authorities. However, banks need to document their decision-making and the data on which it is based and make disclosures.

Classification and measurement

14. Standard 9 simplifies the approach to classification and measurement. It provides for three types of assets, each with a different measurement basis. The categories are determined with reference to the observable business model of the entity, as follows:

(a) Financial assets are held to maturity and solely interest and principal are collected. Assets are measured at amortized cost. There are rules to address complex instruments and determine whether the proceeds can be deemed interest and principal;

(b) Financial assets are held to maturity but may also be sold. This approach accepts that banks typically rebalance their portfolios on a day-to-day basis and therefore requires them to identify the part of their holdings that may be used for this purpose as distinct from permanent holdings. Assets are held at fair value in the balance sheet with changes in fair value reported under other comprehensive income.[7] There is a fair value option for use in the event of accounting mismatches;

(c) Financial assets that are not held in one of the other two business models. Such assets are measured at fair value through profit or loss. However, an exception is allowed when equity instruments are not held for trading. In such instances, they are still measured at fair value but under other comprehensive income instead of profit or loss. In such instances, dividends received are under profit or loss.

15. With regard to financial liabilities, the International Accounting Standards Board has indicated that constituents had not asked for any change to the requirements in Standard 39, which are largely maintained in Standard 9. One significant difference is that there is no longer a requirement to unbundle embedded derivatives.

Hedging

16. Standard 9 has simplified the accounting rules to address the hedging components of risk, such as hedging with crude oil futures against changes in aviation fuel prices, and the hedging of partial risk, such as 60 per cent of the currency risk on a financial instrument.[8] In addition, it introduces a new disclosure on the cost of hedging, designed to better inform users about gains and losses associated with hedging. Entities are required to disclose their risk management strategies and how these are likely to affect primary financial statements. Standard 9 does not address macrohedging. The International Accounting Standards Board had an ongoing project on this issue but its proposals were largely rejected and Standard 9

[7] Other comprehensive income contains "items of income and expense (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other International Financial Reporting Standards" (International Accounting Standard 1, paragraph 7).

[8] See, for example, International Financial Reporting Standards Foundation, 2014, [Board] completes reform of financial instrument accounting, Press release, 24 July, which states as follows: "[Standard] 9 introduces a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements."

has now been finalized.[9] The Board has continued to work on this issue and is expected to consult on an alternative proposal in due course.

Practical implementation

17. The National Australia Bank was an early adopter of Standard 9 (Australian Accounting Standards Board 9). The Bank produced an investor briefing to explain the impact of Standard 9 and noted that it had had to increase its collective impairment provision by $A 725 million, although this was adjusted against retained earnings. Data showed that the expected credit loss method of provisioning would cause impairment provisions to be recognized earlier than under Standard 39. The Bank stated that the new categories of assets mean that a greater proportion of its loans would be at an amortized cost and welcomed the ability to measure assets held to maturity or for sale at fair value through profit or loss.

Derogations for insurers

18. The insurance community faces two major changes to its balance sheets, namely Standard 9 in 2018 and Standard 17 on insurance contracts in 2021. Insurers have noted that there is a risk that the asset side of balance sheets will use fair values in 2018 while the liabilities side will not use fair values until 2021, thereby importing some accounting volatility to balance sheets arising from the accounting mismatch.[10]

19. In September 2016, the International Accounting Standards Board issued an amendment to the existing insurance standard, Standard 4 on insurance contracts, to allow insurers a choice of two derogations to handle the three-year transition. Insurers can either move under other comprehensive income any volatility arising from the mismatch during the period, known as the overlay approach, or companies that are predominantly insurance-related can defer application of Standard 9 until 2021, known as the deferral approach.

Standard 15: Revenue from contracts with customers

20. Standard 15 came into force in January 2018. There was little detailed guidance on the relevant predecessor standards, namely International Accounting Standards 11 on construction contracts and 18 on revenue. Countries that have adopted the International Financial Reporting Standards may note that Standard 15 is more prescriptive than its predecessors and this may generate implementation questions.

21. Standard 15 is built on the identification of performance obligations.[11] Its application presupposes that preparers identify contracts with customers, analyse performance obligations and allocate the overall contract price proportionately to each obligation. Revenue is recognized when a performance obligation has been satisfied, and is not dependent on the entire contract being satisfied.

22. For many, probably most, transactions, there is only a single performance obligation, and this analysis is therefore straightforward. The application of Standard 15 becomes more complex when there is more than one obligation, and there may be difficulty in determining whether there is more than one obligation. For example, if a telephone handset is sold with a required minimum period of use of the supplier's telephone network, the customer is not usually charged a separate price for the handset. The contract does, however, contain two or more performance obligations under Standard 15, namely supply

[9] For a summary of a discussion paper on this issue and feedback from constituents, see International Accounting Standards Board, 2015, Accounting for dynamic risk management: A portfolio revaluation approach to macrohedging, Agenda paper 4.

[10] See, for example, the correspondence of 20 January 2016 from the Chief Financial Officers Forum and Insurance Europe to the chair of the International Accounting Standards Board, available at www.cfoforum.eu/letters/CFOF_IE_Comment_Letter_on_IFRS_9_Deferral.pdf.

[11] Under Standard 15, a performance obligation is "a promise in a contract with a customer to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer".

of the handset and access over time to the network. Standard 15 specifies that a contract price must be allocated across performance obligations in proportion to the retail price of the separate obligations.

Standard 16: Leases

23. Standard 16 is due to be implemented in January 2019. It significantly changes the way in which lessees account for what were formerly operating leases but leaves lessor accounting largely unchanged. Lessees are expected to show altered balance sheets that reflect both increased assets and increased liabilities, but there are practical exceptions. Standard 16 was developed jointly with the Financial Accounting Standards Board in the United States of America and is largely but not completely converged.[12]

24. When the predecessor standard, International Accounting Standard 17, was issued in December 1997, it was expected that the new accounting and reporting brought about would significantly change balance sheets. However, its main effect was to significantly change the way leases were written, causing them to cover shorter periods, to qualify as operating leases and remain off balance sheets. Such leases could be renewed, so that lifetime use was obtained, but in stages, to avoid capitalization.

25. Under Standard 16, a lessee is required to recognize both a leased asset and a lease obligation and/or liability in the balance sheet when they control the use of a more than insignificant asset for any period longer than 12 months. The asset may, however, be classified as an intangible right-of-use asset and be shown as a separate category in the balance sheet or may be classified with tangible non-current assets in line with the nature of the underlying asset, as had been required under Standard 17. In the profit or loss account, the asset is amortized, most likely on a straight-line basis reflecting the length of the lease, and the rental charge is split between a financing cost and reduction-of-lease obligation. This means that although the rental payment may be the same across the life of the lease, the charge to profit or loss is weighted more towards the early life of the lease when the liability is greatest and the financing charge therefore the highest. This is a significant difference to the generally accepted accounting principles in the United States, under which standard setters decided to allow a straight-line charge.

Implementation issues

26. The implementation of Standard 16 will be more or less onerous depending on the extent to which an entity uses lease finance. However, all listed companies are likely to have an initial cost in determining the leases they have. Arrangements for the central control of leasing vary from group to group. Subsidiaries may have the right to enter into small leases without specific clearance from central or main offices, in which case there may not be any central documentation of operating leases.

27. Standard 16 puts into sharper focus the issue of when a contract becomes a service contract and not a lease. This is a boundary issue that may cause enforcement problems. The exception for low-value assets may also be a source of difficulties. The effects analysis of the International Accounting Standards Board on Standard 16 reports that in conducting outreach on low-value assets, the Board suggested that these would be items that cost less than $5,000 when new, such as personal computers. However, this could potentially be a grey area for implementation and for audit and enforcement by regulatory authorities.

Implementation practices

28. At a meeting of the Emerging Economies Group in Kuala Lumpur in May 2018, the implementation support team of the International Financial Reporting Standards Foundation gave a presentation on the implementation difficulties with regard to Standard 16 and a

[12] The International Accounting Standards Board version differs from that of the Financial Accounting Standards Board in some details, in particular the treatment of property rentals and mitigations for small leases (World Accounting Report, February 2016). For comparisons with the generally accepted accounting principles in the United States, see International Financial Reporting Standards Foundation, 2016, Effects Analysis: Standard 16.

presentation on the business implications of Standard 16.[13] The latter noted that implementation would change the financial metrics of companies with what were previously classified as operating leases, as follows:

(a) Balance sheet structure: liabilities and assets will increase, thereby increasing the debt-to-equity ratio;

(b) Income statement: operating costs will reduce but financing costs will increase, thereby reducing the interest coverage ratio;

(c) Statement of cash flows: some operating cash flows will become financing cash flows.

Standard 17: Insurance contracts

29. Standard 17 may turn out to be the most far-reaching standard that the International Accounting Standards Board has produced to date. It introduces a single, comparable way of accounting for insurance contracts worldwide in a context in which there are many different views about how insurance companies should prepare financial statements and many national approaches that are not comparable. Standard 17 was issued in May 2017 and does not come into force until January 2021. The significant time gap reflects the technical difficulty most companies may experience in applying this standard.

30. Standard 17 defines an insurance contract as one in which a specified risk is transferred to the insurer for a period in return for a premium. The aim of the standard is to ensure that revenue from the contract flows through to profit or loss during the period covered by the contract. The difficulty is that many claims against insurance contracts are made after the period of a contract. In consequence, even one-year contracts carry what is referred to as a tail of claims that may extend over several years. Insurers are therefore required to estimate at each reporting date claims not yet presented and deduct these from the contract revenue allocated. Standard 17 introduces the term "contract fulfilment cash flows", which form part of the insurance liability or asset. Standard 17 requires that this estimate also include the future profit margin on the contract and a risk adjustment. If this process suggests that the contract is not profitable, it should be immediately recognized as an onerous contract.[14] A key issue in this regard is that an insurer is required to update the estimates and assumptions systematically at each reporting date. This means that discount rates will reflect current market conditions and the expectations about the future unwinding of the contract will also be re-evaluated. Some contracts, in particular long-term contracts, include an investment element in the premium. Standard 17 requires this to be split and accounted for separately.

31. Implementation of Standard 17 will be difficult for most companies, and the International Accounting Standards Board has therefore provided a three-year lead period. The International Financial Reporting Standards Foundation provides support through a transition resource group on implementation and other outreach activities. Technical staff have given presentations on implementation at meetings of the World Standard-setters, the Emerging Economies Group and the International Financial Reporting Standards Advisory Council.

Initiatives in progress

32. The new standards discussed in the present note have already had or will have a significant impact on financial reporting. The International Accounting Standards Board currently does not have other standard-setting projects of a similar dimension in view, but has a number of projects in progress intended to improve financial reporting, which will lead to implementation requirements in the future. The main aim of these projects is to

[13] See www.ifrs.org/groups/emerging-economies-group/#meetings.

[14] Onerous contract refers to any contract deemed ultimately to be loss-making, and applies to any contract running beyond the end of the reporting year. The International Financial Reporting Standards require an estimate to be made of the likely outcomes of such contracts and, if they are not expected to make a profit, state that the full expected loss should be provided for in the current result (Standard 15 and International Accounting Standard 37).

improve communications; several other projects are intended to address relatively obscure lacunae in the International Financial Reporting Standards and others are intended to make minor improvements in existing standards.

Standards for small and medium-sized entities

33. The International Financial Reporting Standards for Small and Medium-sized Entities of the International Accounting Standards Board were first issued in 2009 and a slightly revised version came into force in 2015. The standards are a stand-alone comprehensive basis of accounting that do not involve any reference to the full suite of International Financial Reporting Standards and differ from the full suite in a number of ways. The Board aims to amend the standards at intervals of at least three years and then only to incorporate new International Financial Reporting Standards already being implemented. According to the International Financial Reporting Standards Foundation and based on its profiles of 166 jurisdictions, the International Financial Reporting Standards for Small and Medium-sized Entities are required or permitted in 86 countries.

34. An update is not currently planned; in 2016, the International Accounting Standards Board voted to start the next update process in early 2019. The new International Financial Reporting Standards discussed in this chapter will normally be candidates for review by the Implementation Group of the International Financial Reporting Standards for Small and Medium-sized Entities prior to the update in 2020. However, as financial institutions and insurance companies are not permitted to use the International Financial Reporting Standards for Small and Medium-sized Entities, these standards should not be impacted by Standard 17. The existing standards include limited guidance on financial instruments used by commercial companies, and these may change slightly as a result of the finalization of Standard 9. Standard 15 and Standard 16 normally apply in some form to small and medium-sized enterprises and, as such enterprises may be significant users of lease finance, they may be more affected by the implementation of Standard 16 than many larger companies. The determination of a material leased asset may differ in the context of such an enterprise in comparison with that of a listed company.

II. Practical implementation of the International Public Sector Accounting Standards

A. Background

35. The International Public Sector Accounting Standards are a tool that can be applied to support the modernization of government accounting and many countries have made efforts to adopt them. The first International Public Sector Accounting Standards were published in May 2000. This chapter highlights key practical issues that can arise during the implementation process. Practical challenges can emerge in areas such as regulatory set-up, institutional arrangements, technical accounting and financial reporting, along with issues and challenges with regard to the broader development of the public sector accounting profession. The standards are developed by the International Public Sector Accounting Standards Board for application by local, regional and national governments and related government entities and serve as a mechanism for enabling the increased homogeneity of public sector financial reporting in different countries.[15]

36. The adoption of the standards by countries worldwide has gained increasing attention among member States.[16] At the same time, policymakers, regulators and

[15] I Brusca and JC Martinez, 2016, Adopting International Public Sector Accounting Standards: A challenge for modernizing and harmonizing public sector accounting, *International Review of Administrative Sciences*, 82(4):724–744.

[16] Ibid. Also see, for example, Association of Chartered Certified Accountants, 2017, International Public Sector Accounting Standards implementation: Current status and challenges, available at www.accaglobal.com/uk/en/professional-insights/global-profession/ipsas-implementation-current-status-and-challenges.html.

academics are increasingly devoting attention to recent developments in the global convergence of public sector accounting and reporting. In debates on local, regional and global convergences of public sector accounting practices, accountability and transparency often stand out as critical components in driving the convergence agenda. In the last two decades, the International Public Sector Accounting Standards Board and the standards it establishes have increasingly become a focal point for international standardization and reference within the area of public sector accounting. The Board is an independent standard-setting board and its operations are facilitated by the International Federation of Accountants. Since 1997, the Board has developed and issued a suite of accrual-based and cash-based International Public Sector Accounting Standards.[17] In addition, the Board has developed three recommended practice guidelines on reporting on the long-term sustainability of an entity's finances; financial statement discussion and analysis; and reporting service performance information.

37. The strategy of the Board since 2015 has had as its key strategic objective to strengthen public financial management and knowledge globally through the increased adoption of accrual-based International Public Sector Accounting Standards by:[18]

(a) Developing high-quality public sector financial reporting standards;

(b) Developing other publications for the public sector;

(c) Raising awareness of the International Public Sector Accounting Standards and the benefits of their adoption.

38. The Board adopts a certain due process and working procedures in promulgating the International Public Sector Accounting Standards. In developing the standards, the Board follows a structured and public process that provides an opportunity for stakeholders in financial reporting in the public sector, including preparers and users directly affected by the standards, to make their views known and have them considered by the Board.

B. Overview of current and forthcoming standards

39. In 2017, the Board issued Exposure Draft 62 on financial instruments, which proposes new, simplified classification and measurement requirements for financial assets, a forward-looking impairment model and a flexible principle-based hedge accounting model. Exposure Draft 62 seeks to align accounting for financial instruments with Standard 9 on financial instruments and includes suggested public sector-specific modifications.[19] This approach builds on public and private sector best practices while seeking to address public sector-specific features.

40. In addition in 2017, the Board issued Exposure Draft 63 on social benefits, which addresses accounting for the delivery of social benefits, such as retirement, unemployment and disability benefits, aimed at improving consistency, transparency and reporting by public sector entities of social benefit schemes, which account for a large portion of government expenditure in most jurisdictions. Exposure Draft 63 defines social benefits and proposes requirements for the recognition and measurement of social benefit schemes.

41. At the end of 2017, the Board issued revised International Public Sector Accounting Standards on financial reporting under the cash basis of accounting, which take effect on 1 January 2019, with earlier adoption encouraged. The amendments seek to address some of the main barriers that had been observed with regard to the adoption of this standard. In addition, the Board issued Standard 40 on public sector combinations, providing the first international accounting requirements that specifically address the needs of the public sector when accounting for combinations of entities and operations. Standard 40 classifies public sector combinations as either amalgamations or acquisitions.

[17] See www.ipsasb.org/publications-resources and www.ifac.org/publications-resources/revised-cash-basis-ipsas.

[18] www.ifac.org/publications-resources/ipsasbs-strategy-2015-forward-leading-through-change.

[19] www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/. The Board approved Standard 41 on financial instruments in June 2018.

42. In January 2018, the Board issued Exposure Draft 64 on leases. The leases project of the Board is a convergence project with Standard 16 on leases. In developing Exposure Draft 64, the Board applied its policy paper on the process for reviewing and modifying International Accounting Standards Board documents. Drawing on this process, the International Public Sector Accounting Standards Board proposes adopting the Standard 16 right-of-use model for lessees. However, the Board decided not to adopt the Standard 16 risks and rewards incidental-to-ownership model for lessors and instead decided to opt for the right-of-use model for lessors as well. The Board also proposes new public sector-specific guidance on concessionary leases for both lessors and lessees.

43. In April 2018, the Board issued Exposure Draft 65 on improvements to the International Public Sector Accounting Standards, which proposes general improvements to address issues raised by stakeholders, and convergence amendments with regard to the International Financial Reporting Standards. In addition, the Board published a consultation document on its proposed strategy and work plan for 2019–2023 that emphasizes the importance of the International Public Sector Accounting Standards in public financial management reforms and proposes as a strategic objective the strengthening of public financial management globally through the increased adoption of accrual-based standards.

44. Finally, in 2017, the Board issued a consultation paper on heritage items and in 2018, issued a consultation paper on accounting for revenue and non-exchange expenses. Board staff have issued a staff questions and answers document on the application of materiality to preparing financial statements, which summarizes existing provisions in the International Public Sector Accounting Standards on materiality.[20]

C. Practical implementation

45. The *International Standards: 2017 Global Status Report* of the International Federation of Accountants[21] highlights that the process towards providing high-quality public financial information begins with Governments committing to the implementation of internationally recognized financial reporting standards. The report states that financial reporting standards such as the International Public Sector Accounting Standards support a comprehensive capture of the financial performance and position of reporting entities. In addition, the International Federation of Accountants emphasizes that this process is driven by national priorities, resources and relevance. Member organizations must determine the appropriate level and type of actions they should take to promote and support the adoption of the standards, and the International Federation of Accountants assists them by providing guidance on developing road maps to promote and support adoption.

46. The PricewaterhouseCoopers survey on accounting and reporting by Governments, *Towards a New Era in Government Accounting and Reporting*, second edition, states that the greatest shift in financial reporting practices is expected in Africa and Latin America, followed by Asia, with many Governments undertaking such a project as part of a wider public finance management reform, often funded by international institutional donors.[22]

Africa

47. Over the years, many countries in Africa have adopted International Public Sector Accounting Standards, with several countries intending to formally adopt the standards as part of financial management reform programmes. Some of the incentives and programmes for their adoption in Africa have been funded by donors. The PricewaterhouseCoopers survey highlighted that 17 countries in Africa indicated their intention to move to accrual accounting.

[20] For a related podcast, see www.ifac.org/news-events/2017-06/ipsasb-staff-podcast-materiality.

[21] www.ifac.org/publications-resources/international-standards-2017-global-status-report.

[22] www.pwc.com/rw/en/publications/pw-ipsas-survey.html.

Asia and the Pacific

48. Following the crisis in the late 1990s, countries in South Asia embarked on financial management reforms in the private and public sectors. Some of the countries most affected by the crisis were Indonesia, the Republic of Korea and Thailand, and other countries affected included Malaysia and the Philippines. Funding from donors such as the International Monetary Fund and the World Bank required public finance management reforms, including the adoption of accrual accounting standards based on the International Public Sector Accounting Standards. Bangladesh, India, Nepal and Pakistan adopted standards aligned to cash-based International Public Sector Accounting Standards.[23]

Eastern Europe

49. Countries in Eastern Europe have embarked on adoption processes with regard to the International Public Sector Accounting Standards. However, publications on their implementation processes are not as widely available as those of other regions.

Latin America and the Caribbean

50. Many countries in South America are moving towards the adoption of the International Public Sector Accounting Standards, included as part of financial management reform programmes promoted and funded by donors.[24] Chile and Peru have taken the lead, with other countries looking to adopt the standards by 2021. The International Public Sector Accounting Standards Board states that national Governments, bodies and organizations in the following countries in South America have adopted or plan to adopt the standards: Brazil, Colombia, Costa Rica, Panama and Peru.[25]

Western Europe

51. A survey of financial reporting practices in selected countries carried out in 2017 by the Organization for Economic Cooperation and Development in collaboration with the International Federation of Accountants and the Accountability Now initiative was sent to the ministries of finance and equivalent bodies of all 34 member countries.[26] The results showed that most member countries had reformed and modernized their financial reporting practices in the last decades.

D. Practical implementation challenges

52. This section addresses the role of legal and regulatory aspects in the context of adopting accrual-based International Public Sector Accounting Standards, including institutional issues that may emerge during adoption, as well as a review of selected technical issues. Finally, the section addresses the role of statistical reporting and budget-based reporting with regard to accrual-based financial reporting under the standards, skills development and cost aspects of implementation.

Legal and regulatory aspects

53. Public sector accounting is firmly embedded in the political, economic, legal and social contexts in which it is practiced. The political system and legal framework therefore have a significant influence on the adoption and implementation of government accounting standards in general. The implementation of the International Public Sector Accounting

[23] Association of Chartered Certified Accountants, 2017.

[24] Ibid.

[25] www.ifac.org/system/files/uploads/IPSASB/IPSASB-Fact-Sheet-June-2016-2.pdf.

[26] www.ifac.org/publications-resources/accrual-practices-and-reform-experiences-oecd-countries; member countries are Australia, Austria, Belgium, Canada, Chile, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, the Republic of Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom of Great Britain and Northern Ireland and the United States.

Standards may imply legal changes, as well as new regulations and governance practices. These may be complex and time consuming and vary between countries. With regard to the standards, the governance of accounting practices may be conducted at various levels of government and these levels may vary between countries. A typical division of such levels includes the local government, state government and central government. If a country decides to adopt the standards, it may need to decide on the scope of adoption, namely whether it will be at the local, state or central level of government. In addition, with regard to regulatory aspects, the country may need to consider legal and standard-setting complexities.

Institutional arrangements

54. In the public sector, the legal and regulatory setting is often greatly intertwined with institutional arrangements. There is a growing emphasis in countries and by Governments on the challenges involved in implementing the International Public Sector Accounting Standards in local contexts. An important starting point when embarking on the adoption of the standards could therefore be to ensure that an assessment of the relative complexity of the institutional arrangements for accounting is carried out. The complexity of the accounting arrangement in a country could be driven by the number of accounting laws, rules and standards applied in the national context. The higher the number of accounting laws applicable, the more likely that the national accounting arrangements will be complex.[27] The levels of government can affect the complexity of the institutional arrangements. For example, a European Union-wide study found that member States with a state government-level subsector were the countries with the most complex accounting arrangements.[28] Some countries choose to implement a reform of the institutional arrangements within a broader financial reform that goes beyond the adoption of the International Public Sector Accounting Standards. The institutional arrangement for financial audits also needs to be considered when considering adopting the standards.

Levels of implementation

55. Studies have shown that government accounting arrangements are greatly heterogeneous. The existence of different levels of government has implications for the adoption of the International Public Sector Accounting Standards. Countries with state-level governments have been noted as having the most complex accounting arrangements. Governments need to determine the scope of implementation of the standards by taking into account the different levels of government.

Technical challenges

56. Countries embarking on the adoption of the International Public Sector Accounting Standards are likely to experience technical challenges in diverse areas. One of the first challenges to arise may be with regard to establishing the approach to adoption. The International Monetary Fund has developed a model for a phased transition from cash-based to accrual accounting.[29] Understanding that there are different approaches and methods for phasing the adoption of the standards could facilitate the understanding of technical standard-level implementation challenges. Drawing on existing studies and reports, the key technical challenges in adopting the standards can be grouped into those related to statements of financial performance and statements of financial position, as well as broader challenges in preparing financial statements, including the reconciliation of budget reporting and accrual-based financial reporting, as well as consolidated financial reports. In addition to specific technical challenges, there are overall challenges with regard to the quality of data used to support accrual-based financial reporting and to ensuring the timeliness of reporting.

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[27] Ernst and Young, 2012, *Overview and Comparison of Public Accounting and Auditing Practices in the 27 [European Union] Member States* (London).

[28] Ibid.

[29] International Monetary Fund, 2016, *Implementing Accrual Accounting in the Public Sector* (Washington, D.C.).

57. Preparing a statement of financial performance that is in compliance with the standards could imply specific challenges with regard to revenue recognition. Accounting for revenue is highlighted as one of the main challenges by the Association of Chartered Certified Accountants.[30] Preparing a statement of financial position that is in compliance with the standards entails challenges related to the detailed contents of the statement. The results of the Organization for Economic Cooperation and Development, International Federation of Accountants and Accountability Now survey show that countries have progressed at different rates in preparing balance sheets due to challenges in this area.

Links to statistical reporting

58. Government finance statistics provide the basis for fiscal monitoring. The *Government Finance Statistics Manual 2014* is part of a series of international guidelines on statistical methodologies issued by the International Monetary Fund.[31] In addition, the International Public Sector Accounting Standards Board initiated a project in 2012 aimed at reducing the differences between International Public Sector Accounting Standards and reporting guidelines for public sector government finance statistics.[32] The Board noted that significant benefits could be gained from using a single integrated financial information system to generate both financial statements under the International Public Sector Accounting Standards and government finance statistics reports. Such an approach would reduce the preparation time and costs of the latter, as well as the efforts required, while improvements could be expected in the source data for the reports, with flow-on benefits with regard to report quality, including timeliness. Improvements in the understandability and credibility of both types of reports are also likely to result.

Budget-based versus accrual-based reporting

59. Governments may decide to adopt accrual accounting as a first step before embarking on the more complex task of introducing accrual budgeting. Most Governments operate on a cash basis. Adopting accrual-based financial reporting may give rise to a temporary incongruity between ex ante and ex post information. For example, financial statements would include accrual-based expenses while the budget would continue to be based on cash expenditure. However, as noted in the *Government Finance Statistics Manual 2014*, the accumulation of experience in accrual accounting and the availability of accrual-based historical data during this period is likely to contribute to a smoother eventual transition to accrual budgeting. In handling budgetary reporting and annual financial reporting, a challenge could arise if there are timing differences in the introduction of accrual accounting and budgeting. In such a situation, the capacity to generate suitable cash-based reports will need to be maintained in the interim period until a full transition to accrual budgeting has been achieved.

Skills capacity

60. Governments and public sector organizations may not have the skills, competence and staffing levels required for the implementation of the International Public Sector Accounting Standards. This has been a challenge in many countries. Implementation requires a programme of training to raise skills levels, and there are additional pressures to recruit and retain staff that are skilled in and focus on the standards. This challenge goes beyond a lack of core knowledge and understanding of the standards; related challenges may include the translation of the standards and guidance materials. Skills gaps identified by the Association of Chartered Certified Accountants include some reporting areas, in particular in the narrative reporting accompanying financial statements to clarify what the financial data implies for users.[33] Adoption of the standards may imply not only a steep increase in skills requirements but also a change in the finance culture and mindset, to make full use of the opportunities presented by professional accountants, to drive value. In

[30] Association of Chartered Certified Accountants, 2017.

[31] www.imf.org/external/np/sta/gfsm/.

[32] www.ifac.org/publications-resources/ipsass-and-government-finance-statistics-reporting-guidelines.

[33] Association of Chartered Certified Accountants, 2017.

addition to the technical skills required, there may be country-specific linguistic challenges to be addressed. For example, in Abu Dhabi, the Government requires financial statements to be presented in Arabic.[34] Overall accountancy capacity in a country will impact the ability to recruit and retain qualified staff in the public sector and implementation will require the upgrading of skills. This may lead to staff leaving an organization after acquiring such skills. Such challenges may also be viewed as opportunities to develop the capacities of existing staff. A consideration in this regard should be to achieve a good balance between using internal staff and external resources such as consultants.

Implementation costs

61. The costs of implementing the International Public Sector Accounting Standards should not be underestimated, whether from the financial reporting or the audit perspective.[35] Costs will be incurred in training, in using specialized external consultants, in upgrading information technology and in developing appropriate guidance and translation tools. Adequate financial resources should also be devoted to targeted stakeholder engagement and to other engagement and awareness activities. Most countries reviewed by the Association of Chartered Certified Accountants had adopted the International Public Sector Accounting Standards in conjunction with wider public financial management improvement programmes, which required additional investments.

62. In the last decades, many countries have undertaken significant reforms in public accounting and, therefore, in the financial reporting of information by public entities. The new accounting systems respond not only to concerns with regard to legitimacy, lawfulness and compliance with regulations, through budgetary cash-based information, but also the availability of information concerning the efficient use and supply of public resources. The reforms introduced in public sector accounting aim to improve financial reporting for decision makers and for accountability purposes in general.

63. Practical challenges in adopting the International Public Sector Accounting Standards can emerge in areas such as regulatory set-up, institutional arrangements, technical accounting and financial reporting, along with issues and challenges with regard to the broader development of the public sector accounting profession. In the coming years, further studies may need to be conducted on addressing country-specific implementation issues.

III. Conclusion and the way forward

64. This note reviews practical implementation considerations with regard to the International Financial Reporting Standards, highlighting the implications of standards issued in recent years, and the International Public Sector Accounting Standards, presenting an overview of the current state of implementation of the standards.

65. With regard to the International Financial Reporting Standards, delegates at the thirty-fifth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting may wish to consider the following issues:

(a) What is the current state of implementation of the International Financial Reporting Standards worldwide?

(b) Are the standards being implemented in a comparable and consistent manner?

(c) Are monitoring, compliance and enforcement authorities conducting their work in a consistent and comparable manner worldwide?

(d) What are some of the key benefits that have been derived as a result of the global implementation of the standards?

[34] Ibid.
[35] Ibid.

(e) Some large jurisdictions worldwide have not yet implemented the standards as issued by the International Accounting Standards Board. What are the prospects for these jurisdictions to implement the standards in the coming years?

(f) What are some of the main challenges that countries and enterprises encounter in implementing the standards?

(g) What needs to be done at the global level to promote the further implementation of the standards in additional jurisdictions, in particular in developing countries and countries with economies in transition?

66. With regard to the International Public Sector Accounting Standards, delegates may wish to consider the following issues:

(a) What is the current state of implementation of the International Public Sector Accounting Standards worldwide?

(b) What are some of the main challenges that have been encountered in implementing the standards?

(c) Are there clearly defined and globally recognized assurance standards intended for financial reports prepared by public sector entities?

(d) What needs to be done to facilitate the sharing of experiences among member States with regard to the implementation of the standards?